FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

AND

STATEMENT OF APPROPRIATED EXPENDITURES
YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

BND

BANK OF NORTH DAKOTA

BANK OF NORTH DAKOTA

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BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of the business-type activities of the Bank of North Dakota, a department of the State of North Dakota, as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Bank of North Dakota's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Bank of North Dakota are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business-type activities of the State of North Dakota that is attributable to the transactions of the Bank of North Dakota. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2009 and 2008, and the changes in its financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of business-type activities of the Bank of North Dakota as of December 31, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Bank of North Dakota elected to present an unclassified balance sheet because current assets are not matched with current liabilities. Presentation of a classified balance sheet would give the false impression that there is a liquidity problem at the bank. Presentation of a classified balance sheet for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

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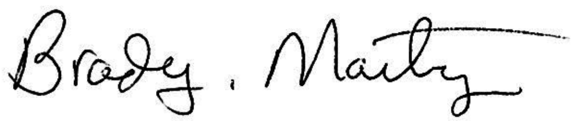
In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2010, on our consideration of the Bank of North Dakota's internal control over financial reporting and our tests of its certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits

The accompanying schedule of expenditures of federal awards on Exhibit A-1 is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on page 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



BRADY, MARTZ & ASSOCIATES, P.C.

March 8, 2010

The discussion and analysis which follows provides an overview of the Bank of North Dakota's (Bank) financial performance for the calendar year ended December 31, 2009 and comparative data for 2008. Please read it in conjunction with the financial statements of the Bank.

FINANCIAL HIGHLIGHTS:

On an aggregate basis, the loan portfolio grew by $89 million or 3.5% to $2.67 billion at December 31, 2009. In 2008, the loan portfolio grew by $610 million or 30.9%.

Total assets grew by $442.7 million or 12.6% to $4 billion. The increase was attributable to continued growth in state deposits, liquidity of banks investing at the Bank, and increased investment in repurchase agreements by commercial customer's unwillingness or reduced interest to invest in the commercial paper market.

The tier one leverage ratio is 7.17% compared to 6.79% the prior year. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%.

REQUIRED FINANCIAL STATEMENTS:

The Bank is an enterprise fund and uses the accrual basis of accounting. The Bank's basic financial statements include the balance sheets, statements of revenues, expenses and changes in fund net assets, and statements of cash flows. The balance sheet provides the basis for computing rate of return, evaluating the net asset structure of the Bank and assessing the liquidity and financial flexibility of the Bank. The statements of revenues, expenses and changes in fund net assets identify the operating performance of the Bank for the calendar year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities. It also provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

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CONDENSED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	(In Thousands) 2009	2008
ASSETS		
Cash and cash equivalents	**$ 841,239**	$ 552,723
Interest receivable	**34,550**	35,260
Securities	**397,370**	331,416
Loans, net	**2,671,143**	2,581,652
Other assets	**2,450**	2,333
Capital assets, net	**12,917**	13,581
Total assets	**$ 3,959,669**	$ 3,516,965
LIABILITIES		
Federal funds purchased and repurchase agreements	**$ 337,627**	$ 304,020
Non-interest bearing deposits	**442,867**	313,900
Interest bearing deposits	**2,496,192**	2,331,456
Interest payable	**2,546**	9,190
Transfers payable	**-**	15,000
Other liabilities	**3,783**	3,873
Short and long-term debt	**405,005**	315,604
Total liabilities	**3,688,020**	3,293,043
NET ASSETS		
Invested in capital assets	**12,917**	13,581
Restricted for pledging purposes	**136,456**	190,647
Unrestricted	**122,276**	19,694
Total net assets	**271,649**	223,922
Total liabilities and net assets	**$ 3,959,669**	$ 3,516,965

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Securities

Securities total $397.4 million at December 31, 2009, an increase from $331.4 million at December 31, 2008. The increase is related to the bank's overall growth. The majority of the securities portfolio consists of AAA rated U.S. government/agency securities. The primary objective of the securities portfolio is to provide liquidity.

Loans

On an aggregate basis, the loan portfolio increased by $89 million, or 3.5%, to $2.67 billion at year-end 2009 from $2.58 billion at year-end 2008. There are four major categories of loans at the Bank.

> Student loans increased by $155.6 million in 2009 compared to an increase of $133.2 million in 2008. In 2009, new student loans totaled $211 million and new consolidation loans were $84 million. Decreases were from $64 million in loan payments including loans paid in full through consolidation. In 2008, new student loans totaled $160 million and new consolidation loans were $7 million. Decreases were from $34 million in loan payments including loans paid in full through consolidation.
>
> Residential loans decreased by $34 million in 2009 and increased by $89 million in 2008. New and refinanced loans made in 2009 and 2008 totaled $68 million and $148 million, respectively, while normal loan payments and refinancing payoffs were $102 million and $59 million, respectively.
>
> Commercial loans decreased by $26 million in 2009 compared to increasing $376 million in 2008.
>
> Farm loans remained the same in 2009 compared to increasing $15 million in 2008.

Loan Delinquencies and Allowance for Loans Losses

When the collectability of any loan becomes uncertain due to delinquency, the financial condition of the borrower, or other factors which cause the Bank to deem itself unsecured, the loan is considered nonperforming and interest is no longer accrued on the loan.

Delinquent and nonaccrual loans for the periods indicated were as follows:

Accruing loans 90 days or more past due include guaranteed student loans of $29.8million and $23.5 million as of December 31, 2009 and 2008, respectively. The Bank is entitled to reimbursement from the guarantor 270 days after default in the case of a student loan payable in monthly installments and 330 days in the case of a student loan payable in less frequent installments.

	(In Thousands)	
	2009	2008
Accruing loans 90 days or more past due	**$ 37,923**	$ 25,620
Nonaccrual loans	**15,944**	3,365

Residential loans of $6.7 million and $1.6 million as of December 31, 2009 and 2008, respectively, are also included in accruing loans 90 days or more past due. In the event of a foreclosure a residential loan guaranteed by the Federal Housing Administration will be paid in full and the property title is transferred to them. The Department of Veterans Affairs has the option of paying their guaranty percentage and the Bank keeps the foreclosed property as well as any gain or loss from the sale or they can pay the loan in full and title is transferred to them.

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The allowance for loan losses are established by charges to income and are decreased by loans charged off, net of recoveries. Adequacy of the allowance is determined by the credit quality of outstanding loans, which are assigned specific ratings commensurate with risk on a case-by-case basis. Management currently reviews the allowance for loan losses for adequacy on a monthly basis. 51% of the overall loan portfolio is federally guaranteed at December 31, 2009 compared to 47% at December 31, 2008. The following sets forth certain information with respect to the Bank's loan loss experience:

	(In Thousands)	
	2009	2008
Gross loans at end of year	**$ 2,713,611**	$ 2,618,402
Allowance for loan losses		
Balance, beginning of year	**$ 36,750**	$ 32,863
Provision charged to operations	**10,300**	8,900
Loans charged off	**(4,907)**	(5,328)
Recoveries	**325**	315
Balance, end of year	**$ 42,468**	$ 36,750
Net loan charge-offs to total loans at the end of period	**0.17%**	0.19%
Net loan charge-offs to non-guaranteed loans at the end of period	**0.34%**	0.36%
Allowance at end of period to total loans at end of period	**1.56%**	1.40%
Allowance at end of period to non-guaranteed loans at end of period	**3.09%**	2.65%

Federal Funds Purchased and Repurchase Agreements

Short-term borrowings were $338 million at December 31, 2009 compared to $304 million at December 31, 2008. Short-term borrowings are from North Dakota financial institutions investing in overnight federal funds at the Bank and customer investments in repurchase agreements with the Bank. The reason for the large decrease in short-term borrowings was due to a shift from repurchase agreements to interest-bearing deposits.

Deposits

Noninterest bearing deposits are $443 million at December 31, 2009, compared with $314 million at December 31, 2008. Noninterest bearing deposits is primarily related to the amount of check clearing activities of respondent banks. Interest-bearing deposits totaled $2.50 billion at December 31, 2009, compared to $2.33 billion at December 31, 2008. This increase is from state deposits related to the growing economic base of the state.

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Transfers Payable

House Bill 1014 provides for a transfer of $60 million to the State's General Fund during the biennium beginning July 1, 2007 and ending June 30, 2009. The Bank transferred $30 million to the State's General Fund in both 2009 and 2008 to satisfy the $60 million obligation. The Bank does not have to transfer any funds to the State's General Fund for the biennium beginning July 1, 2009 and ending June 30, 2011.

Short and Long-Term Debt

There was no short-term Federal Home Loan Bank (FHLB) debt as of December 31, 2009 or 2008. FHLB long-term debt is $405 million at December 31, 2009, compared to $315.6 million at December 31, 2008. FHLB long-term debt is one funding source utilized to fund long-term fixed rate loans.

Net Assets

At December 31, 2009, tier one capital was $270 million, which provides a tier one leverage ratio of 7.17%. At December 31, 2008, tier one capital was $223.9 million, which provides a tier one leverage ratio of 6.79%. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%. The total net asset position of the Bank is affected by several factors, some of which are external to the Bank's operations. The State Legislature, representing the ownership interest in the Bank, makes transfers to the State's General Fund or other programs. By statute, however, in no event are the Bank's net assets to be reduced below $175 million.

Asset/Liability Management - Interest Rate Risk

The Bank's principal objective for interest rate risk management is to control exposure of net interest income to risks associated with interest rate movements. Interest rate risk is measured and reported to the Bank's Funds Management Committee through the use of traditional gap analysis which measures the difference between assets and liabilities that reprice in a given time period and simulation modeling which produces projections of net interest income under various interest rate scenarios and balance sheet strategies.

It is the Bank's policy to maintain a low interest rate risk position by monitoring the amount of forecasted net interest income at risk over a 12-month period assuming several interest rate scenarios. Forecasted results are sensitive to many assumptions, including estimates of the timing of changes in rates which are determined by reference to market indices, such as prime or the Treasury market curve, relative to each other and relative to rates which are determined by the Bank subject to competitive factors.

Liquidity Management

The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors and borrowers. The Bank's Funds Management Committee, within its Funds Management Policy, establishes contingency funding guidelines that seek to provide sufficient funding sources to meet these demands while achieving the Bank's financial objectives. The committee meets regularly to review the Bank's liquidity position, taking into consideration available funding sources, current and forecasted loan demand and projected investment balances.

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CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	(In Thousands)	
	2009	2008
INTEREST INCOME	**$ 131,921**	$ 148,476
INTEREST EXPENSE	**50,994**	71,801
NET INTEREST INCOME	**80,927**	76,675
Provision for loan losses	**10,300**	8,900
NET INTEREST INCOME AFTER PROVISION	**70,627**	67,775
Noninterest income	**11,206**	2,165
Noninterest expense	**19,106**	18,485
INCOME BEFORE TRANSFERS	**62,727**	51,455
TRANSFERS OUT	**(15,000)**	(20,004)
CHANGE IN NET ASSETS	**47,727**	31,451
TOTAL NET ASSETS - BEGINNING	**223,922**	192,471
TOTAL NET ASSETS - ENDING	**$ 271,649**	$ 223,922

Earnings Summary

The Bank's income before transfers was $62.7 million in 2009 compared to $51.5 million in 2008, an increase of 21.9%. This was mainly attributable to an increase in the fair value of securities in 2009.

Net Interest Income

Results of operations are primarily dependent upon the level of net interest income, which is affected by the mix of earning assets (loans, securities, and federal funds sold) and the interest rates earned thereon; and the amount of interest-bearing liabilities (deposits, federal funds purchased and other funds borrowed) on which interest is paid and the rates of interest paid thereon. Average earning assets grew from $3 billion to $3.2 billion at December 31, 2009 with a decrease in interest margin**.**

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The following table shows the average rates earned and paid for 2009 and 2008:

	Year Ended December 31,	
	2009	2008
Annualized average interest rate earned		
Federal funds sold	**0.27%**	2.09%
Securities	**3.06%**	4.64%
Loans	**4.52%**	5.55%
Weighted average interest rates earned	**3.72%**	5.07%
Annualized average interest rate paid		
Deposits	**1.35%**	2.53%
Federal funds purchased and repurchase agreements	**0.25%**	2.15%
Short and long-term debt	**4.77%**	5.12%
Weighted average interest rates paid	**1.62%**	2.75%
Net interest spread	**2.10%**	2.32%
Net interest margin	**2.28%**	2.62%

Provision for Loan Losses

The provision for loan losses was $10.3 million in 2009 and $8.9 million in 2008. One of the factors in determining the necessary provision for loan loss for the year is loan growth. The loan growth was $89 million in 2009 compared to $610 million in 2008.

Noninterest Income

Overall, noninterest income increased by $8.7 million and service fees and other income decreased $1.3 million. This decrease was due to a gain on the sale of the old facility recorded in 2008. There was an overall $10 million increase in the fair value of securities in 2009.

Noninterest Expense

Noninterest expense increased by $621,000, or 3%. The increase in noninterest expense is primarily related to two noninterest expense categories. Salaries and benefits were increased for approved legislative increases and other needed increases. Increases in data processing relate to the purchase of a student lending system.

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BUDGETARY HIGHLIGHTS

Bank of North Dakota operates through a biennial appropriation provided by the State Legislature. The Bank prepares a biennial budget for noninterest expenses which is included in the Governor's budget that is presented to the Legislature at the beginning of each legislative session. The Legislature enacts the budgets of the various state departments through passage of specific appropriation bills. Once passed and signed, the appropriation becomes the Bank's noninterest expense operating budget for the next biennium. Changes to the appropriation are limited to Industrial Commission approval, Emergency Commission authorization, and initiative or referendum action. The Industrial Commission, as provided by Article 10, Section 12 of the North Dakota Constitution, may appropriate necessary funds required in the financial transactions of Bank of North Dakota. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items.

Bank of North Dakota also incurs noninterest expenditures which are not part of the biennial appropriation process. Examples of these expenditures include interest, provision for loan losses, loan collection costs, check processing fees, and depreciation and amortization. These expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority as provided by Article 10, Section 12 of the North Dakota Constitution.

The State of North Dakota does not formally budget revenues for enterprise funds. Thus, a Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual statement cannot be prepared. In its place a Statement of Appropriations is presented. The Statement of Appropriations is prepared on the accrual basis of accounting.

CAPITAL ASSETS

Bank of North Dakota has $12.9 million in bank premises, equipment, and software. Capital expenditures totaled $436,000 in 2009 compared to $3.7 million in 2008. This year's expenditures were almost entirely related to the new student lending system.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Bank does not have to transfer any funds to the State's General Fund for the biennium beginning July 1, 2009 and ending June 30, 2011.

CONTACTING BANK OF NORTH DAKOTA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Bank's finances and to demonstrate the Bank's accountability for the money it receives. If you have any questions about this report or need additional financial information, you can contact Bank of North Dakota by mail at P.O. Box 5509, Bismarck, North Dakota 58506-5509. If you wish to write the Bank for information, the mailing address is 1200 Memorial Hwy, Bismarck, ND 58504.

BANK OF NORTH DAKOTA
BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	(In Thousands) 2009	2008
ASSETS		
Cash and due from banks		
Restricted	**$ 50,216**	$ 5,778
Unrestricted	**766,833**	471,270
Federal funds sold	**24,190**	75,675
Cash and cash equivalents	**841,239**	552,723
Interest receivable		
Due from other funds	**2**	615
Other	**34,548**	34,645
	34,550	35,260
Securities		
Restricted	**30,703**	20,912
Unrestricted	**366,667**	310,504
	397,370	331,416
Loans		
Restricted	**467,699**	481,729
Unrestricted	**2,245,912**	2,136,673
Less allowance for loan losses	**(42,468)**	(36,750)
	2,671,143	2,581,652
Other assets		
Due from other funds	**635**	631
Other	**1,815**	1,702
	2,450	2,333
Capital assets		
Land	**1,171**	1,171
Building and equipment, net	**11,746**	12,410
	12,917	13,581
Total assets	**$ 3,959,669**	$ 3,516,965

See Notes to Financial Statements

	(In Thousands) 2009	2008
LIABILITIES		
Federal funds purchased	**$ 329,510**	$ 300,945
Repurchase agreements	**8,117**	3,075
Deposits		
Non-interest bearing	**428,914**	304,495
Non-interest bearing - of other funds	**13,952**	9,405
Interest bearing	**368,504**	255,915
Interest bearing - of other funds	**2,127,689**	2,075,541
	2,939,059	2,645,356
Interest payable		
Due to other funds	**2,363**	8,839
Other	**183**	351
	2,546	9,190
Transfers payable	**-**	15,000
Other liabilities		
Due to other funds	**264**	170
Other	**3,519**	3,703
	3,783	3,873
Short and long-term debt		
Current portion	**161**	5,137
Long-term portion	**404,844**	310,467
	405,005	315,604
Total liabilities	**3,688,020**	3,293,043
NET ASSETS		
Invested in capital assets	**12,917**	13,581
Restricted for pledging purposes	**136,456**	190,647
Unrestricted	**122,276**	19,694
Total net assets	**271,649**	223,922
Total liabilities and net assets	**$ 3,959,669**	$ 3,516,965

BANK OF NORTH DAKOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	(In Thousands)	
	2009	2008
INTEREST INCOME		
Federal funds sold	**$ 256**	$ 7,046
Securities	**11,611**	12,290
Loans	**120,054**	129,140
Total interest income	**131,921**	148,476
INTEREST EXPENSE		
Deposits	**33,346**	48,139
Federal funds purchased and repurchase agreements	**843**	9,190
Short and long-term debt	**16,805**	14,472
Total interest expense	**50,994**	71,801
NET INTEREST INCOME	**80,927**	76,675
PROVISION FOR LOAN LOSSES	**10,300**	8,900
NET INTEREST AFTER PROVISION FOR LOAN LOSSES	**70,627**	67,775
NONINTEREST INCOME		
Service fees and other	**6,160**	7,475
Net increase/(decrease) in the fair value of securities	**5,046**	(5,310)
Total noninterest income	**11,206**	2,165
NONINTEREST EXPENSE		
Salaries and benefits	**10,474**	9,595
Data processing	**3,631**	3,375
Occupancy and equipment	**951**	1,194
Other operating expenses	**4,050**	4,321
Total noninterest expenses	**19,106**	18,485
INCOME BEFORE TRANSFERS	**62,727**	51,455
TRANSFERS OUT	**(15,000)**	(20,004)
CHANGE IN NET ASSETS	**47,727**	31,451
TOTAL NET ASSETS - BEGINNING OF YEAR	**223,922**	192,471
TOTAL NET ASSETS - END OF YEAR	**$ 271,649**	$ 223,922

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	(In Thousands) 2009	2008
OPERATING ACTIVITIES		
Receipt of service fees and other income from other funds	$ 3,782	$ 4,082
Receipt of service fees and other income from other entities	2,345	3,582
Payment of salaries and benefits	(10,406)	(9,550)
Payment of data processing expenses	(3,002)	(2,664)
Payment of occupancy and equipment	(416)	(1,391)
Payment of other operating expenses	(4,189)	(4,445)
NET CASH USED FOR OPERATING ACTIVITIES	(11,886)	(10,386)
NON-CAPITAL FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	128,967	(4,049)
Net increase in interest bearing deposits	164,736	777,638
Interest payments on deposits	(39,994)	(46,233)
Net increase (decrease) in federal fund purchased and repurchase agreements	33,607	(130,041)
Interest payments on federal funds purchased and repurchase agreements	(842)	(9,226)
Proceeds from issuance of short and long-term debt	105,387	360,200
Payment of short and long-term debt	(15,986)	(289,666)
Interest payments on short and long-term debt	(16,801)	(14,468)
Payment of transfers	(30,000)	(30,046)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	329,074	614,109
CAPITAL AND RELATED FINANCING ACTIVITY		
Purchases of capital assets	(438)	(3,731)
Proceeds from sale of capital assets	-	2,122
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITY	(438)	(1,609)
INVESTING ACTIVITIES		
Purchase of securities	(220,470)	(232,664)
Proceeds from sales, maturities, and principal repayments of securities	159,562	131,488
Investment income received	12,928	18,999
Proceeds from sales of loans	-	35
Net increase in loans	(100,197)	(618,450)
Loan income received	119,705	128,415
Proceeds from sale of other real estate and property owned	238	129
NET CASH USED FOR INVESTING ACTIVITIES	(28,234)	(572,048)
NET CHANGE IN CASH AND CASH EQUIVALENTS	288,516	30,066
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	552,723	522,657
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 841,239	$ 552,723

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS – Page 2

	(In Thousands)	
	2009	2008
RECONCILIATION OF INCOME BEFORE OPERATING TRANSFERS TO NET CASH USED FOR OPERATING ACTIVITIES		
Income before operating transfers	**$ 62,727**	$ 51,455
Adjustments to reconcile income before operating transfers to net cash used for operating activities		
Depreciation and amortization	**1,100**	983
Provision for loan losses	**10,300**	8,900
Gain on sale of loans	**-**	(1)
(Gain)/loss on sale of other real estate and property owned	**(21)**	28
(Gain)/loss on retirement of fixed assets	**1**	(628)
Net (increase)/decrease in the fair value of securities	**(5,046)**	5,310
Reclassification of interest income and expense to other activities	**(80,927)**	(76,675)
(Increase)/decrease in other assets	**74**	(94)
(Increase)/decrease in due from other funds	**(4)**	96
Increase (decrease) in due to other funds	**94**	(9)
Increase/(decrease) in other liabilities	**(184)**	249
NET CASH USED FOR OPERATING ACTIVITIES	**$ (11,886)**	$ (10,386)
SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS		
Transfers from net assets to transfers payable	**$ 15,000**	$ 20,004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of North Dakota (the Bank) is owned and operated by the State of North Dakota under the supervision of the Industrial Commission as provided by Chapter 6-09 of the North Dakota Century Code. The Bank is a unique institution combining elements of banking, fiduciary, investment management services, and other financial services, and state government with a primary role in financing economic development. The Bank is a participation lender; the vast majority of its loans are made in tandem with financial institutions throughout the State of North Dakota. The Bank's primary deposit products are interest-bearing accounts for state and political subdivisions.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 14, *The Financial Reporting Entity*, Bank of North Dakota should include all component units over which the Bank of North Dakota exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Bank.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Bank of North Dakota is included as part of the primary government of the State of North Dakota's reporting entity.

Accounting Standards

The Bank follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Bank follows all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) Accounting Standards Codification of authoritative generally accepted accounting principles to be applied by nongovernmental entities, including those issued after November 30, 1989, unless they conflict with the GASB pronouncements.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified balance sheet because current assets are not matched with current liabilities. Presentation of a classified balance sheet would give the false impression that there is a liquidity problem at the Bank. Presentation of a classified balance sheet for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Therefore, the balance sheet of Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

Fund Accounting

The Bank is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net assets is segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statements of cash flows presents the cash flows for operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

Significant Group Concentrations of Credit Risk

Most of the Bank's lending activities are with customers within the state of North Dakota. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2009 and 2008:

	2009	2008
Student loans, of which 97% and 98% are guaranteed	**34%**	30%
Commercial loans, of which 5% and 4% are federally guaranteed	**38%**	41%
Residential loans, of which 83% and 81% are federally guaranteed	**18%**	19%
Agricultural loans, of which 8% and 10% are federally guaranteed	**10%**	10%
	100%	100%

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all with original maturities of three months or less.

Securities

Securities that may be sold before maturity in response to changes in interest rates or prepayment risk, or due to liquidity needs or changes in funding sources or terms are classified as available for sale. These securities are recorded at fair value, with unrealized gains and losses, reported in equity. Securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost.

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Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method.

In order to borrow from the Federal Home Loan Bank (FHLB), the Bank is required to hold FHLB stock. The amount of stock that the Bank must hold is equal to .12% of total bank assets plus 4.45% of total FHLB advances. Since ownership of this stock is restricted, these securities are carried at cost and evaluated periodically for impairment.

Nonmarketable equity securities represent venture capital equity securities that are not publicly traded. The Bank reviews these assets at least annually for possible other-than-temporary impairment. These securities do not have a readily determinable fair value and are stated at cost. The Bank reduces the asset value when it considers declines in value to be other than temporary. We recognize the estimated loss as a loss from equity securities in noninterest income.

Loans Held For Sale

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Bank. The carrying value of the mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Loans held for sale are carried at the lower of aggregate cost or market value. Gains or losses on sale of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

Loans are reported at the outstanding unpaid principal balances, adjusted for charge-offs, unamortized deferred fees and costs on originated loans and premiums or discounts on purchased loans. Interest income on loans is accrued at the specific rate on the unpaid principal balance. Unearned income, deferred fees and costs, and discounts and premiums are amortized to income over the estimated life of the loan using the interest or straight line method.

The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Future payments are generally applied against principal until the loan balance is at zero. Any further payments are then recorded as interest income on the cash basis. Loans can be returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The Bank uses the allowance method in providing for loan losses. Accordingly, the allowance is increased by the current year's provision for loan losses charged to operations and reduced by net charge-offs. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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The adequacy of the allowance for loan losses and the provision for loan losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for commercial, agricultural, farm real estate, state institution and bank stock loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual guaranteed student and residential loans for impairment disclosures, except for such loans that are placed on nonaccrual.

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit and financial standby letters of credit. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Capital Assets

Capital assets are stated at cost less accumulated depreciation or amortization. Capital assets with a purchase price of $5,000 or more are capitalized and reported in the accompanying financial statements. Depreciation and amortization are provided over the estimated useful lives of the individual assets using the straight-line method.

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Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $360,000 and $173,000 as of December 31, 2009 and 2008, respectively.

Compensated Absences Payable

Annual Leave: Bank employees accrue vested annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month, and is fixed by the employing unit per section 56-06-14 of the North Dakota Century Code. Accrued annual leave cannot exceed 30 days at December 31 of each year. Employees are paid for unused annual leave upon termination or retirement.

Sick Leave: Bank employees accrue sick leave that the rate of one working day per month of employment without limitation on the amount that can be accumulated. Per North Dakota Century Code section 54-06-14, employees vest at 10 years of continuous service at which time the Bank is liable for 10 percent of the employee's accumulated unused sick leave.

The Bank's liability for accumulated unpaid annual leave and sick leave is reported in other liabilities and will be funded by the Bank's appropriation when the liability is to be liquidated. The net change in the liability is recorded in salaries and benefits.

Restricted Assets and Restricted Net Assets

Certain Bank assets and net assets carry a restricted classification because they are pledged on short and long-term debt, securities sold under agreements to repurchase and other required pledging purposes. If an expense is incurred that qualifies for use of either restricted or unrestricted resources, the Bank will first apply restricted resources.

Defined Benefit Plan

The Bank funds amounts equal to pension costs accrued.

Income Taxes

Bank of North Dakota is a governmental agency of the State of North Dakota and, as such, is not subject to federal or state income taxes.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued professional standards concerning the accounting for transfers of financial assets. This standard is intended to improve the relevance and comparability of the information that a reporting entity provides in its financial statements concerning a transfer of financial assets. It also provides guidance on the effects of a transfer on its financial position, financial performance, and cash flows and a transferor's continuing involvement, if any, in transferred financial assets. This standard must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Bank does not expect the adoption of this standard to have a significant impact on the Bank's results of operations, financial condition or cash flows.

In June 2009, the Financial Accounting Standards Board issued professional standards to address (1) the effect on certain provisions of a previously issued standard on the consolidation of variable interest entities, as a result of the elimination of the qualifying special-purpose entity concept, and (2) concerns about the application of certain key provisions of a previously issued standard, including those in which the accounting and disclosures under the previous standard do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This standard must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Bank does not expect the adoption of this standard to have an impact on the Bank's results of operations, financial condition or cash flows.

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average reserve balances maintained at the Federal Reserve Bank were approximately $40,000,000 in 2009 and $7,000,000 in 2008, respectively.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. On other significant depository relationships the Bank requires the depository financial institution to have a minimum short-term rating of A-1 or P-1 as established by the rating agency.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Bank will not be able to recover deposits that are in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for deposits. All of the Bank's deposits are insured up to $250,000 with the Federal Deposit Insurance Company except for deposits at the Federal Reserve Bank and the Federal Home Loan Bank. The remaining deposits with these financial institutions are uncollateralized.

The following summary presents the amount of the Bank's deposits as of December 31, 2009 and 2008:

	(In Thousands)	
	2009	2008
Covered by depository insurance		
Due from banks	**$ 801**	$ 786
Uncollateralized		
Due from banks	**639,767**	333,459
Federal funds sold	**24,190**	75,675
Total bank balances	**$ 664,758**	$ 409,920

Investments

The Bank's investment policy provides guidelines for security custody, approved security dealers, investment authority, variance from the approved investment selection and purchase process, required investment data to be obtained and maintained, investment guidelines, investment management parameters, investment intent, and federal funds management.

The Bank's investment policy indicates that the Bank is authorized to own the following types of securities: U.S. Treasury securities, Federal agency securities, mortgaged-backed securities, collateralized mortgage obligations, corporate securities, asset-backed securities, state and municipal securities, money market securities, capital stock of government sponsored agencies, and venture capital.

The composition of the investment portfolio, related credit quality rating, custody, and duration as of December 31, 2009 and 2008, is provided below:

				(In Thousands)	
	Rating *	Custody	Duration (In Years)	**2009**	2008
Federal agency	Aaa	(1)	1.52	**$ 77,130**	$ 170,928
Mortgage-backed	Aaa	(1)	3.12	**182,660**	127,965
Corporate bonds	Aaa	(1)	1.65	**100,724**	-
State and municipal	Not rated	(2)	7.98	**10,868**	11,868
Federal Home Loan Bank	Not rated	(3)	N/A	**22,193**	17,385
Other equity securities	Not rated	(2)	N/A	**3,795**	3,270
				$ 397,370	$ 331,416

* The credit quality rating indicated above is based on Moody's Investors Service.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Bank will not be able to recover the value of the investment that is in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for investments. The Bank is not exposed to any custodial credit risk for its investment portfolio. Custody of investments indicated above is as follows:

(1) These are fed-book entry securities.
(2) Registered in the name of the Bank and held in the Bank's vault.
(3) Not registered and held at FHLB.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank's investment policy provides for a duration range of one to five years which will serve to decrease interest rate risk. The duration for the Bank's investments is provided in the table provided above using the modified duration method. The average duration for the Bank's entire investment portfolio was 3.6 years as of December 31, 2009.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk for investments is the risk of loss attributed to the magnitude of the Bank's investment in a single issuer. The Bank's investment policy provides the following minimum credit quality ratings for its investments and the following asset allocation range for investments as a percentage of the total portfolio:

	Minimum Credit Quality Ratings		Asset Allocation Range	
	Moody's (1)	S & P (2)	Minimum	Maximum
U.S. Treasury securities	Aaa	AAA	0%	100%
Federal agency securities	Aaa	AAA	0%	100%
Step-up agency securities	Aaa	AAA	0%	20%
Agency Mortgaged-backed securities	Aaa	AAA	0%	75%
Agency collateralized mortgage obligations	Aaa	AAA	0%	50%
Non-agency collateralized mortgage obligations	Aaa	AAA	0%	20%
Corporate securities	A2	A	0%	20%
Municipal obligations	None	None	0%	20%
Money market securities	P1	A1	0%	20%

(1) Moody's Investors Services
(2) Standard and Poor's

Investments in any one issuer that represent 5% or more of total investments as of December 31, 2009 is as follows:

	Amount (In Thousands)	Percent
Federal agency		
Federal Home Loan Bank	$ 67,147	16.9%
Fannie Mae	9,983	2.5%
Mortgage-backed		
Fannie Mae	74,449	18.8%
Freddie Mac	80,601	20.3%
Corporate Bonds		
Bank of America	25,195	6.3%
JP Morgan Chase & Co	25,149	6.3%
Morgan Stanley	25,173	6.3%
Federal Home Loan Bank stock	22,193	5.6%
Others less than 5%	67,480	17.0%
	$ 397,370	100.0%

Securities with a fair value of $8,511,000 at December 31, 2009, and $3,527,000 at December 31, 2008, were used to secure repurchase agreements and for other required pledging purposes. FHLB stock totaling $22,193,000 at December 31, 2009 and $17,385,000 at December 31, 2008 is pledged on the FHLB advances (Note 11).

The maturity distribution of debt securities at December 31, 2009, is shown below. The distribution of mortgage-backed securities is based on average expected maturities. Actual maturities may differ because issuers may have the right to call or prepay obligations. Federal Home Loan Bank stock and other equity securities are not included in the following maturity distribution.

	(In Thousands)
Within one year	$ 154,403
Over one year through five years	147,686
Over five years through ten years	40,167
Over ten years	29,126
	$ 371,382

For the year ended December 31, 2009, proceeds from the sales of securities available for sale amounted to $5,250,000. For the year ended December 31, 2008, proceeds from the sales of securities available for sale amounted to $5,835,000.

NOTE 4 - INTERFUND TRANSACTIONS

The Bank, because of its unique relationship with the State of North Dakota, is a party in many business transactions with other entities of state government. All state funds and funds of all state penal, education, and industrial institutions must be deposited in the Bank under state law. These transactions are a normal part of bank business and, accordingly, are included in the Bank's financial statements.

	(In Thousands)	
	2009	2008
LOANS AND INTEREST RECEIVABLE – DUE FROM OTHER FUNDS – See NOTE 5		
OTHER ASSETS - Due from other funds (trade accounts receivable - all current)		
North Dakota Guaranteed Student Loan Program	**$ 201**	$ 186
North Dakota Student Loan Trust	**230**	280
Beginning Farmer Revolving Loan Fund	**11**	11
Community Water Facility Loan Fund	**22**	20
Developmentally Disabled Facility Loan Program	**1**	2
Board of University and School Lands	**170**	132
	$ 635	$ 631
OTHER LIABILITIES - Due to other funds (trade accounts payable - all current)		
Information Technology Department	**$ 217**	$ 166
Attorney General	**47**	4
	$ 264	$ 170

	(In Thousands) 2009	2008
OPERATING TRANSFERS - Out		
State General Fund	**$ 15,000**	$ 20,004
COMPONENT UNITS OF THE STATE OF NORTH DAKOTA		
SECURITIES		
ND Public Finance Authority (to fund required reserves established by various series resolutions - all noncurrent)	**$ 3,668**	$ 3,668
OTHER ASSETS (NDPFA - Trade accounts receivable - all current)	**$ 7**	$ 7

NOTE 5 - LOANS

The composition of the loan portfolio at December 31, 2009 and 2008 is as follows:

	(In Thousands) 2009	2008
Student	**$ 932,323**	$ 776,473
Commercial	**1,038,589**	1,064,811
Residential loans	**475,124**	509,052
Agricultural	**267,575**	268,066
	2,713,611	2,618,402
Allowance for loan losses	**42,468**	36,750
	$ 2,671,143	$ 2,581,652
Current portion	**$ 467,490**	$ 461,234

Unamortized deferred student loan costs totaled $11,770,000 and $9,247,000 as of December 31, 2009 and 2008, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $1,860,000 and $1,983,000 as of December 31, 2009 and 2008, respectively.

The composition of State Institutions loans at December 31, 2009 and 2008 is as follows:

	(In Thousands)			
	2009		2008	
	Principal	**Interest**	Principal	Interest
Mill and Elevator (annual operating)	**$ 6,000**	**$ -**	$ 34,716	$ 178
University of North Dakota (1997 flood repairs)	**-**	**-**	1,456	117
Emergency Management (1997 - 2002 disaster repairs)	**-**	**-**	939	29
Rough Rider Industries	**147**	**-**	173	1
Veterans Home	**152**	**1**	-	-
Housing Finance Agency	**7,573**	**1**	9,358	290
	$ 13,872	**$ 2**	$ 46,642	$ 615
Current portion	**$ 13,599**	**$ 2**	$ 40,352	$ 615

The composition of the allowance for loan losses for the years ended December 31, 2009 and 2008 is as follows:

	(In Thousands)	
	2009	2008
Balance - beginning of year	**$ 36,750**	$ 32,863
Provision for loan losses	**10,300**	8,900
Loans charged off	**(4,907)**	(5,328)
Recoveries	**325**	315
Balance - end of year	**$ 42,468**	$ 36,750

The following is a summary of information pertaining to impaired, non-accrual and restructured loans:

	(In Thousands) December 31, 2009	(In Thousands) December 31, 2008
Impaired loans with a valuation allowance	**$ 15,944**	$ 3,365
Valuation allowance related to impaired loans	**$ 3,128**	$ 886
Average investment in impaired loans	**16,604**	8,310
Total non-accrual loans	**15,944**	3,365
Total loans past-due ninety days or more and still accruing	**37,923**	25,620
Restructured loans	**50,090**	10,407

The interest income recorded on impaired loans is not significant.

Accruing loans 90 days or more past due include guaranteed student loans of $29,792,000 and $23,489,000 as of December 31, 2009 and 2008, respectively. The Bank is entitled to reimbursement from the guarantor 270 days after default in the case of a student loan payable in monthly installments and 330 days in the case of a student loan payable in less frequent installments.

Residential loans of $6,662,000 and $1,613,000 as of December 31, 2009 and 2008, respectively, are also included in accruing loans 90 days or more past due. In the event of a foreclosure a residential loan guaranteed by the Federal Housing Administration will be paid in full and the property title is transferred to them. The Department of Veterans Affairs has the option of paying their guaranty percentage and the Bank keeps the foreclosed property as well as any gain or loss from the sale or they can pay the loan in full and title is transferred to them.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2009.

NOTE 6 - LOAN SALES AND LOAN SERVICING

A summary of the Bank's loan sales during 2009 and 2008 follows:

	(In Thousands) 2009	(In Thousands) 2008
Commercial loans participated	**$ -**	$ 20,000
Residential loans sold on the secondary market	**-**	34

BND recognized gains on sale of loans of $1,000 in 2008 which is included in noninterest income on the Statements of Revenue, Expenses and Changes in Fund Net Assets.

The Bank has contracts to provide servicing of loans for others. These loans are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others as of December 31, 2009 and 2008 were as follows:

	(In Thousands)	
	2009	2008
Student loans		
North Dakota Student Loan Trust	**$ 53,185**	$ 59,920
Others	**6,042**	4,385
Residential loans	**12,734**	18,063
Other state fund loans		
Board of University and School Lands	**63,386**	56,599
Community Water Facility Loan Fund	**17,724**	16,422
Beginning Farmer Revolving Loan Fund	**9,008**	8,461
Developmentally Disabled Facility Loan Program	**840**	1,153
Department of Human Services	**8,680**	9,110

Under existing student loan servicing agreements, the Bank generally agrees to reimburse lenders for all principal, accrued interest and special allowance which the lender has been denied if the denial resulted from the actions or inactions of the Bank. Under existing residential loan servicing agreements, the Bank generally agrees to reimburse lenders for all losses, damages, judgments or legal expenses that resulted from the actions or inactions of the Bank. Any potential liability for claims under these agreements is not considered significant.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2009 and 2008 is as follows:

(In Thousands)

	Balance 2008	Additions	Retirements	Balance 2009
Capital assets not being depreciated:				
Land	$ 1,171	$ -	$ -	$ 1,171
Capital assets being depreciated:				
Building	$ 10,212	$ -	$ -	$ 10,212
Equipment	985	42	40	987
Furniture	679	-	-	679
Hardware	1,288	22	43	1,267
Software	6,192	372	-	6,564
	19,356	436	83	19,709
Less accumulated depreciation for				
Building	268	300	-	568
Equipment	494	168	40	622
Furniture	50	67	-	117
Hardware	772	156	43	885
Software	5,362	409	-	5,771
Total accumulated depreciation	6,946	1,100	83	7,963
Capital assets, net	$ 12,410	$ (664)	$ -	$ 11,746

(In Thousands)

	Balance 2007	Additions	Retirements	Balance 2008
Capital assets not being depreciated:				
Land	$ 1,843	$ -	$ 672	$ 1,171
Construction in progress	8,258	1,954	10,212	-
	$ 10,101	$ 1,954	$ 10,884	$ 1,171
Capital assets being depreciated:				
Building	$ 4,285	$ 10,212	$ 4,285	$ 10,212
Equipment	790	301	106	985
Furniture	511	662	494	679
Hardware	925	389	26	1,288
Software	6,026	425	259	6,192
	12,537	11,989	5,170	19,356
Less accumulated depreciation for				
Building	3,476	276	3,484	268
Equipment	487	113	106	494
Furniture	480	41	471	50
Hardware	583	215	26	772
Software	5,284	338	260	5,362
Total accumulated depreciation	10,310	983	4,347	6,946
Capital assets, net	$ 2,227	$ 11,006	$ 823	$ 12,410

Depreciation and amortization expense on the above assets amounted to $1,100,000 and $983,000 in 2009 and 2008, respectively.

The 2005 North Dakota Legislature Senate Bill 2014 provided for the construction of a new building for the Bank. In November 2005, the Bank entered into a Purchase Agreement to purchase land for the new building site. The building construction project began in the fall of 2006 and was completed in 2008. Bank personnel began occupying/utilizing the new facility in the middle of January 2008. Total costs associated with the new facility included land on which the new bank facility is constructed costing $1,171,000. Land acquired that is not occupied by the new facility totals $761,000 and is included in other assets. Building construction cost totaled $10,212,000. The old bank facility was sold in 2008 at a net sales price of $2,123,000. A gain on the sale of the old facility of $649,000 is included in noninterest income in 2008.

NOTE 8 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than $100,000 was $1,711,836,000 and $1,755,057,000 as of December 31, 2009 and 2008, respectively.

At December 31, 2009, the scheduled maturities of certificates of deposits are as follows:

	(In Thousands)
One year or less	$ 1,508,795
One to three years	113,691
Over three years	114,241
	$ 1,736,727

NOTE 9 - FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS

	(In Thousands)	
	Federal Funds Purchased	Repurchase Agreements
2009		
Ending balance	**$ 329,510**	**$ 8,117**
Highest month-end balance	**404,320**	**8,117**
Average daily balance	**331,223**	**1,434**
Weighted average interest rate		
As of year-end	**0.25%**	**0.25%**
Paid during year	**0.25%**	**0.25%**
2008		
Ending balance	$ 300,945	$ 3,075
Highest month-end balance	564,355	141,755
Average daily balance	341,008	87,114
Weighted average interest rate		
As of year-end	0.25%	0.25%
Paid during year	2.21%	1.90%

The purpose of federal funds purchased and repurchase agreements is to provide continuous short-term investments for the Bank's customers. A schedule disclosing the increases and decreases of federal funds purchased and repurchase agreements have not been provided since this information would not provide any useful information to the users of the financial statements.

Federal funds purchased generally mature the day following the date of purchase. The Bank enters into repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying agreements to repurchase normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the Bank or provide securities or cash of equal value, the Bank would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There was no credit exposure as of December 31, 2009 and 2008, because the dealer did not take control of the securities. The Bank had not incurred any losses on these agreements in 2009 and 2008. All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of agreements to repurchase, the Bank policy is for the term to maturity of the investment to be the same as the term of the agreement to repurchase. Such matching existed at year-end.

NOTE 10 - SHORT AND LONG-TERM LIBILITIES

Activity for short and long-term liabilities for the years ended December 31, 2009 and 2008 was as follows:

	(In Thousands)				
	Balance 2008	Additions	Reductions	Balance 2009	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances					
Short-term	$ -	$ 10,000	$ 10,000	$ -	$ -
Long-term	314,600	95,000	5,821	403,779	-
ND Public Finance Authority	1,004	386	164	1,226	161
Compensated absences	876	743	674	945	803
Total long-term liabilities	$ 316,480	$ 106,129	$ 16,659	$ 405,950	$ 964

	Balance 2007	Additions	Reductions	Balance 2008	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances					
Short-term	$ -	$ 200,000	$ 200,000	$ -	$ -
Long-term	244,100	160,000	89,500	314,600	5,000
ND Public Finance Authority	970	200	166	1,004	137
Compensated absences	831	685	640	876	745
Total long-term liabilities	$ 245,901	$ 360,885	$ 290,306	$ 316,480	$ 5,882

A summary, by years, of future minimum payments required to amortize the outstanding long-term debt is as follows:

	(In Thousands)		
	Principal	Interest	Total
2010	$ 161	$ 18,903	$ 19,064
2011	33,161	18,141	51,302
2012	161	16,965	17,126
2013	62,161	15,395	77,556
2014	15,161	13,792	28,953
2015-2019	235,422	49,544	284,966
2020-2024	58,778	9,791	68,569
Totals	$ 405,005	$ 142,531	$ 547,536

The FHLB long-term advances outstanding at December 31, 2009, mature from January 2011 through December 2024. The FHLB long-term advances have fixed rate interest, ranging from 3.01% to 7.35%. The advances must be secured by minimum qualifying collateral maintenance levels by pledging residential loans totaling $467,699,000 in 2009 and $481,729,000 in 2008 are currently being used as security to meet these minimum levels.

The ND Public Finance Authority long-term borrowing is unsecured. Proceeds from the long-term borrowings are used to make irrigation loans at Bank of North Dakota.

NOTE 11 - TRANSFERS PAYABLE

Transfers have been made out of unrestricted net assets to transfers payable. The Bank has the following transfers payable as of December 31, 2009 and 2008:

	(In Thousands)	
	2009	2008
State General Fund	**$ -**	$ 15,000
Industrial Commission	**-**	-
	$ -	$ 15,000

The Sixtieth North Dakota Legislature passed House Bill 1014 which provides for transfers during the biennium beginning July 1, 2007 and ending June 30, 2009 totaling $60,000,000 from the current earnings and the accumulated undivided profits of the Bank. The moneys must be transferred in the amounts and at the times requested by the director of the Office of Management and Budget. The Bank transferred $30,000,000 to the State's General Fund in both 2009 and 2008 to satisfy the $60,000,000 obligation. The Sixty-first North Dakota Legislature did not pass legislation requiring the Bank to transfer any funds to the State's General Fund for the biennium beginning July 1, 2009 and ending June 30, 2011.

NOTE 12 - PENSION PLAN

Bank of North Dakota participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of Bank of North Dakota. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred, or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. Bank of North Dakota has implemented a salary reduction agreement and is currently contributing the employees share. Bank of North Dakota is required to contribute 4.12% of each participant's salary as the employer's share. In addition to the 4.12% employer contribution, the employer is required to contribute 1% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 2009 and 2008 were approximately $677,000 and $617,000.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

Legislative Action- Various legislative bills provide state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2009 and ending June 30, 2011 and in one case provide a source of payment of principal and interest payable on bonds issued. Following is a summary of legislative action and/or North Dakota Statute in effect:

H.B. 1002, Section 3 – Subject to budget section approval, the secretary of state may borrow up to $3,400,698 from the Bank of North Dakota, which is appropriated to the secretary of state for the purpose of implementing the North Dakota business development engine computer project, during the biennium beginning July 1, 2009, and ending June 30, 2011. The secretary of state may request budget section approval only if the revenues projected by the secretary of state and the office of management and budget to be generated as a result of provisions of chapter 102 of the 2007 Session Laws over the term of the proposed loan based on the trend of actual corporate charters granted are anticipated to be sufficient to repay the proposed loan, including interest over the term of the loan.

H.B. 1012, Section 4 – If the caseload/utilization of medical services, long-term care, and developmental disabilities services is more than anticipated by the sixty-first legislative assembly, the Department of Human Services, subject to budget section approval, may borrow the sum of $8,500,000, or so much of the sum as may be necessary, from the Bank of North Dakota, which is appropriated for the purpose of providing the state matching share of additional medical assistance grants for medical services, long-term care, and developmental disabilities services, for the biennium beginning July 1, 2009, and ending June 30, 2011. The Department of Human Services shall request funding from the sixty-second legislative assembly to repay any loan obtained pursuant to provisions of this section, including accrued interest.

H.B. 1013, Section 20 – The School for the Deaf may borrow the sum of $835,000, or so much of the sum as may be necessary, from the Bank of North Dakota, for the purpose of remodeling the trades building on the campus of the School for the Deaf.

H.B. 1400, Section 60 – The Department of Public Instruction may borrow the necessary funds to reimburse school districts for the excess costs of serving the one percent of special education students statewide who require the greatest school district expenditures in order to be provided with special education and related services. No borrowing limit was established. The Superintendant of Public Instruction shall file for introduction legislation requesting the legislative assembly to return any amount transferred under this bill.

S.B. 2012, Section 16 – The Department of Transportation, subject to the approval of the emergency commission, may borrow moneys from the Bank of North Dakota to advance and match federal emergency relief funds. No borrowing limit was established.

S.B 2332, Sections 8 and 9 – The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $8,000,000 to the Health Information Technology Loan Fund to meet any required match for federal funds or to the Electronic Health Information Exchange Fund to meet any required match for federal funds or as directed, a portion to both funds to meet any required match for federal funds. The Health Information Technology Office Director shall request fund transfers from the Bank only as necessary to comply with federal requirements and to meet cash flow needs of the funds. The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $5,000,000 to the Health Information Technology Planning Loan Fund. The Health Information Technology Office Director shall request transfers from the Bank only as necessary to meet cash flow needs of the fund.

State Water Commission

Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on bonds issued are payable from transfers to be made and appropriated by the legislative assembly from the water development trust fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the legislative assembly from revenues in the resources trust fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500,000 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the trustee to the fund established for paying principal and interest on the bonds under a trust indenture. If the bank has to provide a transfer to the state water commission to make principal and interest payments on these bonds, the state water commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank.

Farm Real Estate Loan Guarantee Program

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400,000. The Bank may have no more than $8,000,000 in outstanding loan guarantees under this program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2009 and 2008, the Bank has guarantees outstanding totaling $1,342,000 and $1,648,000, respectively. The Bank had no guarantee commitments outstanding as of December 31, 2009 and $169,000 as of December 31, 2008 included in commitments to extend credit.

Beginning Entrepreneur Loan Guarantee Program

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The program includes an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85 percent of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loans that the Bank may guarantee cannot exceed 5% of the Bank’s tier one capital as define by the Department of Financial Institutions. A lender may apply to the Bank for a loan guarantee for a loan of up to $100,000. The term of the guarantee may not exceed five years. As of December 31, 2009 and 2008, the Bank has guarantees outstanding totaling $4,223,000 and $4,555,000, respectively, and had guarantee commitments outstanding of $202,000 and $66,000, respectively, included in commitments to extend credit.

Livestock Loan Guarantee Program

Chapter 6-09-41 of the North Dakota Century Code provides that the Bank of North Dakota establish and administer a loan guarantee program that is designed to expand livestock feeding and dairy farming in this state. This program was effective through June 30, 2009.

The Bank may guarantee loans made by the bank, credit union, a savings and loan association, or any other lending institution in this state to the owner of a commercial livestock feeding operation or to the owner of a new or expanding dairy operation. In the event of a default, the Bank shall pay to the lender the amount agreed upon, provided that the amount may not exceed 85% of the principal due the lender at the time the claim is approved.

As of December 31, 2009 and 2008, the Bank has guarantees outstanding totaling $1,466,000 and $789,000, respectively. The Bank had no guarantee commitments outstanding as of December 31, 2009 and $850,000 as of December 31, 2008 included in commitments to extend credit.

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and financial standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Bank’s exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2009 and 2008, the following financial instruments were outstanding where contract amounts represent credit risk:

	Contract Amount (In Thousands)	
	2009	2008
Commitments to extend credit	**$ 585,960**	$ 653,632
Financial standby letters of credit	**396,951**	295,808

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The likelihood of funding any of these letters of credit is considered to be remote. The bank generally holds collateral supporting those commitments it deemed necessary.

Financial standby letters of credit include letters of credit pledged for public deposits by North Dakota banks for $275,550,000 and $182,975,000 at December 31, 2009 and 2008, respectively. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities are recorded at fair value on a recurring basis.

Effective January 1, 2008, the Bank adopted Statement of Financial Accounting Standards Accounting Standards Codification (ASC) 820-10, *Fair Value* Measurements. ASC 820-10 defines fair value and establishes a consistent framework for measuring fair value under generally accepted accounting principles and expands disclosure requirements for fair value measurements.

Fair Value Hierarchy

Under ASC 820-10, we group our assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Determination of Fair Value

Under ASC 820-10, we base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy of ASC 820-10.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value (ASC 825-10 disclosures).

Cash and Cash Equivalents

Cash and cash equivalents**,** include cash and due from banks, items out for collection, and federal funds sold. These assets are carried at historical cost. The carrying amounts of cash and cash equivalents approximate fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Securities Available for Sale

Securities available for sale consist primarily of Federal agencies and mortgage backed securities. Securities available for sale are recorded at fair value on a recurring basis. Fair value is based upon quoted prices, if available. If quoted market prices are not available, fair values are measured using observable market prices from independent pricing models, or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include private collateralized mortgage obligations and state and political securities. Securities classified as Level 3 are FHLB stock and equity securities that are not publicly traded and do not have a readily determinable fair value.

Loans

The carrying value of loans is described in note 1, "Summary of Significant Accounting Policies". We do not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for ASC 825-10 disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value.

The fair value estimates for ASC 825-10 purposes differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment and credit loss estimates are evaluated by product and loan rate.

- The fair value of student loans is based on market values as established by the secondary market.
- For real estate 1-4 family first and junior lien mortgages, fair value is calculated by discounting contractual cash flows, adjusted for prepayment and credit loss estimates, using discount rates based on current industry pricing or our own estimate of an appropriate risk-adjusted discount rate for loans of similar size, type, remaining maturity and re-pricing characteristics.
- The fair value of all other loans is calculated by discounting contractual cash flows using discount rates that reflect our current pricing for loans with similar characteristics and remaining maturity.
- Off-Balance Sheet Credit-Related Instruments include loans commitments, standby letters of credit, and guarantees. These instruments generate ongoing fees at our current pricing levels, which are recognized over the term of the commitment period. The fair value of these instruments is estimated based upon fees charged for similar agreements. The carrying value of the deferred fees is a reasonable estimate of the fair value of the commitments.

Interest Receivable

The carrying amount of interest receivable approximates fair value due to the relatively short period of time between accrual and expected realization.

Non-Maturity Deposits

The fair value for deposits with no stated maturity, such as demand deposits, savings, NOW, and money market accounts, are disclosed as the amount payable upon demand.

Deposits with Stated Maturities

The fair value for interest bearing certificates of deposit has been estimated by discounted future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal Funds Purchased and Repurchase Agreements

The carrying amount of federal funds purchased and repurchase agreements approximates fair value due to the relatively short period of time between the origination of the instruments and their expected payments.

Interest payable

The carrying amount of interest payable approximates fair value due to the relatively short period of time between accrual and expected payment.

Short and Long-Term Debt

Current market prices were used to estimate the fair value of short and long-term debt using current market rates of similar maturity debt.

Other Liabilities

The carrying amount of other liabilities approximates fair value due to the short period of time until expected payment.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

	(In Thousands)			
	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 397,370	$ 346,211	$ 25,171	$ 25,988

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Securities
Balance, beginning of year	$ 20,656
Purchases	5,681
Sales and maturities	(349)
Balance, end of year	$ 25,988

ASC 825-10, Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates as of December 31, 2009 and 2008, for financial instruments, as defined by ASC 825-10. The carrying amounts in the following table are recorded in the balance sheet under the indicated captions. In accordance with ASC 825-10, we have not included assets and liabilities that are not financial instruments in our disclosure, such as our premises and equipment and other assets. Additionally, the amounts in the table have not been updated since year end; therefore the valuations may have changed significantly since that point in time. For these reasons, the total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Bank.

The carrying amounts and estimated fair values of the Bank's financial instruments as of December 31, 2009 and 2008 were as follows:

(In Thousands)

2009	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 841,239	$ 841,239	$ 841,239	$ -	$ -
Securities available for sale	397,370	397,370	346,211	25,171	25,988
Interest receivable	34,550	34,550	-	34,550	-
Loans, net	2,671,143	2,816,318	-	2,816,318	-
Financial liabilities					
Non-maturity deposits	$ 1,202,332	$ 1,202,332	$ -	$ 1,202,332	$ -
Deposits with stated maturities	1,736,727	1,777,422	-	1,777,422	-
Federal funds purchased and repurchase agreements	337,627	337,627	-	337,627	-
Short and long-term debt	405,005	416,150	-	416,150	-
Other liabilities	6,329	6,329	-	6,329	-

2008	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 552,723	$ 552,723	$ 552,723	$ -	$ -
Securities available for sale	331,416	331,416	282,802	27,958	20,656
Interest receivable	35,260	35,260	-	35,260	-
Loans, net	2,581,652	2,758,060	-	2,758,060	-
Financial liabilities					
Non-maturity deposits	$ 866,299	$ 866,299	$ -	$ 866,299	$ -
Deposits with stated maturities	1,779,057	1,809,918	-	1,809,918	-
Federal funds purchased and repurchase agreements	304,020	304,020	-	304,020	-
Short and long-term debt	315,604	331,231	-	331,231	-
Other liabilities	28,063	28,063	-	28,063	-

NOTE 16 - RISK MANAGEMENT

The Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Bank also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Bank pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reimbursed by a third party insurance carrier for losses in excess of $1 million per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket employee fidelity bond coverage in the amount of $100,000. The State Bonding Fund does not currently charge any premium for this coverage. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

BANK OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **EXHIBIT A-1**
YEAR ENDED DECEMBER 31, 2009

Federal Grantor/Program Title	Federal CFDA Number		Expenditures
DEPARTMENT OF EDUCATION			
Direct Program:			
Federal Family Education Loan Program	84.032		
Interest subsidy		$	8,192,253
Special allowance			148,543
Excess interest			(15,211,803)
Net special allowance received/(paid)			(15,063,260)
Guaranteed Student Loans:			
Previous year balance of loans on which there are continuing compliance requirements			627,175,081
Guaranteed student loan principal disbursed during the fiscal year			141,646,543
Total guaranteed student loans (Note 2)			768,821,624
Total Department of Education			761,950,617
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
Federal Housing Administration (FHA) Loan Program	14.117		
Interest subsidy			17,016
Guaranteed Loans:			
Previous year balance of loans on which there are continuing compliance requirements			371,048,795
FHA loan principal disbursed during the fiscal year			57,676,144
Total guaranteed loans (Note 3)			428,724,939
Total Department of Housing and Urban Development			428,741,955
DEPARTMENT OF DEFENSE			
Direct Program:			
Veteran's Benefits Administration (VA) Loan Program	64.114		
Guaranteed Loans:			
Previous year balance of loans from on which there are continuing compliance requirements			132,828,715
VA loan principal disbursed during the fiscal year			10,352,766
Total guaranteed loans			143,181,481
Total Department of Defense			143,181,481
TOTAL FEDERAL AWARDS		$	1,333,874,053

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the Bank of North Dakota and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - The outstanding balance of guaranteed student loans on which there are continuing compliance requirements under the student loan program totaled $720,817,242 as of December 31, 2009.

NOTE 3 - The outstanding balance of guaranteed FHA loans receiving interest subsidies under the FHA program totaled $35,408 as of December 31, 2009.

2008-1

Criteria
CFDA #14.117 - According to U.S. Department of Housing and Urban Development Handbook 2000.04 REV-2 CBG-1 Chapter 7: HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance, an escrow analysis for the mortgagee should be performed not more than one year ago to assess whether monthly deposits appear adequate to provide for payments of taxes, insurance, etc.

Condition
One of forty mortgagee files reviewed did not contain an annual escrow analysis.

Cause
The mortgagee had filed for bankruptcy, but the bankruptcy case was discharged. The Bank of North Dakota had received documentation for the bankruptcy being discharged, but had not updated the status to being out of bankruptcy, so the mortgagee's escrow was not analyzed during the annual review.

Effect
The mortgagee's monthly deposit for escrow may not be adequate to provide for payments of taxes, insurance, etc.

Recommendation
We recommend the Bank of North Dakota update the status on their files as soon as notification is received. We also recommend the Bank of North Dakota review files on bankruptcy status to ensure they are still on bankruptcy status, so that a escrow analysis isn't missed on a mortgagee's file that was denied a bankruptcy claim.

Views of Responsible Official and Planned Corrective Actions
We will be implementing changes to our procedures to prevent a reoccurrence of this situation. Our new procedure now includes running escrow analysis on all accounts to ensure no borrower will be missed.

Current Status
Based upon our audit testing, finding 2008-1 was corrected.

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT A-3

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS *BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS*

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of the Bank of North Dakota, a department of the State of ND, as of and for the year ended December 31, 2009, which collectively comprise the Bank of North Dakota's basic financial statements and have issued our report thereon dated March 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Bank of North Dakota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank of North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under.

Government Auditing Standards.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 8, 2010

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

EXHIBIT A-4

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Compliance

We have audited the compliance of the Bank of North Dakota with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Bank of North Dakota's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Bank of North Dakota's management. Our responsibility is to express an opinion on the Bank of North Dakota's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bank of North Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Bank of North Dakota's compliance with those requirements.

In our opinion, the Bank of North Dakota complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

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We have also audited the Bank's compliance with the following compliance requirements:

- LaRS Report,
- Individual Record Review,
- Loan Origination Fees,
- Interest Benefits,
- Special Allowance Payments,
- Loan Portfolio Analysis,
- Loan Sales, Purchases and Transfers,
- Student Status Changes,
- Payment Processing,
- Due Diligence by Lenders or Servicers in the Collection of Delinquent Loans,
- Due Diligence – Timely Claim Filings by Lenders or Servicers, and
- Cures

relative to the Bank's administration of the Federal Family Education Loan Program on behalf of its lender clients during the year ended December 31, 2009 and have tested the effectiveness of the Bank's internal control over compliance with the aforementioned compliance requirements as of December 31, 2009. Management is responsible for the Bank's compliance with and the effectiveness of the Bank's internal control over compliance with those requirements. Our responsibility is to express an opinion on the Bank's compliance with and the effectiveness of the Bank's internal control over compliance with the specified compliance requirements based on our audit.

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and the 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders or Lender Servicers Participating in the Federal Family Education Loan (FFEL) Program (the Guide)*, issued by the U.S. Department of Education, Office of Inspector General; and, accordingly, included obtaining an understanding of the internal control over compliance with the specified requirements; testing and evaluating the design and operating effectiveness of internal control over compliance; and examining, on a test basis, evidence about the Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

In our opinion, the Bank maintained effective internal control over compliance with the aforementioned compliance requirements as of December 31, 2009, are fairly stated, in all material respects, based upon the criteria for internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Internal Control over Compliance

The management of the Bank of North Dakota is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Bank of North Dakota's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Brady . Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 8, 2010

PART I - SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion was issued on the financial statements of the Bank of North Dakota.

2. We noted no matters involving internal control that we considered to be material weaknesses during the audit of the financial statements.

3. The audit disclosed no instances of noncompliance that were material to the financial statements of the Bank of North Dakota.

4. We noted no matters involving internal control over major programs that we considered to be material weaknesses during the audit.

5. An unqualified opinion was issued on compliance for the major programs of the Bank of North Dakota.

6. The audit disclosed no audit finding required to be reported under Section 510(a) of OMB Circular A-133.

7. The Bank of North Dakota receives federal financial assistance under three programs, the Federal Family Education Loan Program (84.032), Federal Housing Administration Loan Program (14.117), and Veteran's Benefits Administration Loan Program (64.114), the Federal Family Education Loan Program (84.032) and Federal Housing Administration Loan Program (14.117) were tested as major programs for the year ended December 31, 2009l

8. The Bank of North Dakota receives federal financial assistance under three programs, the Federal Family Education Loan Program (84.032), Federal Housing Administration Loan Program (14.117), and Veteran's Benefits Administration Loan Program (64.114), which are considered to be Type A programs. There are no Type B programs. The threshold for distinguishing between Type A and B Programs was $300,000.

9. The Bank of North Dakota did not qualified as a low-risk auditee under Section 530 of OMB Circular A-133.

PART II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS

1. There are no findings relating to the financial statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

1. There are no findings or questioned costs, relating to the federal award programs, which is required to be reported in accordance with Section 510(a) of OMB Circular A-133.

BRADY
MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT A-6

BANK OF NORTH DAKOTA
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED DECEMBER 31, 2009

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

1. **What type of opinion was issued on the financial statements?**

   An unqualified opinion was issued on the 2009 financial statements.

2. **Was there compliance with statues, laws, rules, regulations under which the agency was created and is functioning?**

   Yes - A review was made of Chapter 6.09 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.

3. **Was internal control adequate and functioning effectively?**

   Yes

4. **Were there any indications of lack of efficiency in financial operations and management of the agency?**

   No

5. **Has action been taken on findings and recommendations included in prior year audit reports?**

   Yes – In 2008, an employee was reimbursed meals per diem and also reimbursed $17.57 for actual meal expenses incurred. The employee reimbursed the Bank of North Dakota for $17.57.

6. **Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

   No

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Audit Committee Communications:

1. **Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

   None

2. **Identify any significant accounting estimates, the process used by management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

   None

3. **Identify any significant audit adjustments.**

   None

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

   None

5. **Identify any significant difficulties encountered in performing the audit.**

   None

6. **Identify any major issues discussed with management prior to retention.**

   None

7. **Identify any management consultations with other accountants about auditing and accounting matters.**

   None

8. **Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.**

   Based on the audit procedures performed, the Bank of North Dakota's critical information technology system is the Information Technology Inc. (ITI) system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 8, 2010

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT B-1

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the basic financial statements of the Bank of North Dakota as of and for the year ended December 31, 2009, and have issued our report dated March 8, 2010. These basic financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Bank of North Dakota taken as a whole. The accompanying schedules on Exhibits B-2 and B-3 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 8, 2010

BANK OF NORTH DAKOTA
SCHEDULE OF APPROPRIATED EXPENDITURES **EXHIBIT B-2**
BIENNIUM ENDED JUNE 30, 2009
(In Thousands)

	Final Biennium Appropriation July 1, 2007 to June 30, 2009	Expenditures for Year Ended June 30, 2009	Expenditures for Year Ended June 30, 2008	Unexpended Appropriations
APPROPRIATED EXPENDITURES:				
Salaries and wages	$ 20,379	$ 9,903	$ 9,436	$ 1,040
Operating expenses	13,297	6,057	6,376	864
Capital assets	7,184	1,103	5,766	315
Contingency	1,700	-	-	1,700
	$ 42,560	$ 17,063	$ 21,578	$ 3,919

* **Expenditures Reconciliation:**

	2009	2008
Total expenses per financial statements-		
Interest expense	$ 50,994	$ 71,801
Provision for loan losses	10,300	8,900
Operating expenses	19,106	18,485
	80,400	99,186
Non-appropriated expenditures:		
Interest expense	50,994	71,801
Provision for loan losses	10,300	8,900
Correspondent fees	810	1,631
Depreciation and amortization	1,100	983
Other real estate expense	25	-
Loan collection expenses	126	133
Loan servicing fee expense	402	311
Other expenses	853	166
Nonappropriated expenditures	64,610	83,925
Land and construction in progress	-	6,560
Equipment capitalized	1,352	197
Software capitalized	425	88
Salaries capitalized	9	47
	1,786	6,892
Timing differences for appropriated expenditures:		
July 1, 2009 to December 31, 2008	(8,595)	-
July 1, 2008 to December 31, 2008	8,082	(8,082)
July 1, 2007 to December 31, 2007	-	7,507
	(513)	(575)
Appropriated Expenditures for the fiscal year	$ 17,063	$ 21,578

The continuing appropriation for non-appropriated expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority a provided by Article 10, Section 12 of the North Dakota Constitution.

BANK OF NORTH DAKOTA
DETAILED SCHEDULE OF APPROPRIATED EXPENDITURES **EXHIBIT B-3**
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008	Total
Salaries and wages			
Salaries and wages	$ 7,320	$ 6,915	$ 14,235
Social security	554	529	1,083
Hospital insurance	1,312	1,289	2,601
State retirement contribution	637	610	1,247
Vacation and sick leave benefits	49	75	124
Unemployment insurance and worker's compensation premium	31	18	49
	9,903	9,436	19,339
Operating expenses			
Building expenses	267	354	621
Furniture and equipment expenses	242	1,042	1,284
Processing and development expenses	1,782	1,471	3,253
Software/IT supplies	178	334	512
Contractual services/repairs	766	713	1,479
IT equipment < $5,000	258	179	437
Telephone	229	224	453
Marketing	485	399	884
Professional services	579	566	1,145
Travel	163	142	305
Dues and publications	141	143	284
Supplies	186	144	330
Postage	486	481	967
Other operating expenses	294	184	478
	6,056	6,376	12,432
Capital assets	1,104	5,766	6,870
Contingency	-	-	-
	$ 17,063	$ 21,578	$ 38,641

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT C-1, cont.

**INDEPENDENT AUDITOR'S COMMUNICATION
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

March 8, 2010

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of Bank of North Dakota for the year ended December 31, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 2, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Bank of North Dakota are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the fair value of investments is based upon quoted market prices and investment information obtained from a third party financial institution. We evaluated the key factors and assumptions used to determine the fair value of investments in determining that they are reasonable in relation to the financial statements taken as a whole.

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 8, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Advisory Board, Industrial Commission, Legislative Audit and Fiscal Review and management of Bank of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.